



## Plan to buy transmission lines moves forward

A plan for the state to buy much of California's power transmission system – valued by the governor at roughly \$3 billion – to help its two biggest utilities out of debt cleared another hurdle Thursday.

Work on the proposal came as the keepers of the state power grid again searched for enough electricity to avoid rolling blackouts. The Independent System Operator declared a Stage 3 power alert for the 31st straight day, with reserves in danger of dropping to just 1.5 percent.

The Senate appropriations committee voted 7-4 to back the transmission measure by Senate leader John Burton.

Davis swore lawmakers to secrecy and declined to comment on his proposal except to say that he wants the state to acquire the power lines.

"This will be a balanced business decision, not a bailout," he said.

Burton's bill would let the state acquire the 60 percent of California's transmission system owned by Southern California Edison, Pacific Gas and Electric Co. and San Diego Gas & Electric.

Critics dispute the \$12.7 billion figure utilities claim they are owed, noting that until wholesale rates climbed, Edison and PG&E were making hefty profits thanks to the rate freeze.

The governor has said the two should deduct the amount they've made selling power wholesale from their loss totals. That could cut the loss figure at least \$3 billion.

Assembly Democrats were reviewing Davis' plan. Speaker Robert Hertzberg, D-Van Nuys, declined to comment. Davis has said he will release the proposal Friday.

Burton said the transmission sale would give Edison and PG&E a cash infusion to help them stave off bankruptcy and provide the state with a valuable asset.

Republican legislative leaders oppose the transmission plan.

Senator Jim Brulte said that considering that the utilities earned money from power their plants generated, and made money when wholesale costs were lower than frozen rates they charged consumers, "the utilities' cash problems go away without a state bailout."

### FERC ruling does not add clarity

The Federal Energy Regulatory Commission late Wednesday denied an ISO request to waive a requirement

that PG&E and Edison – major recipients of the last-minute power the ISO buys to avoid blackouts – be creditworthy.

FERC said plant operators can't be forced to supply electricity to the ISO if they risk not getting paid.

Wholesalers say that supports their argument that the state should have to back the ISO's power purchases for Edison and PG&E.

However, ISO attorney Charles Robinson said that ruling only applies to advanced power purchases, not to emergency buying by grid managers.

### Blackouts barely avoided

California came perilously close to rolling blackouts yesterday after two more power plants unexpectedly went off line, state and utility officials said. The failures exposed how fragile the state's power grid has become. More than 30 in-state power plants were out of service yesterday for unplanned maintenance, and out-of-state providers were avoiding the California market for fear of not getting paid.

### \$2 billion spent on energy purchases

The amount the state expects to spend on emergency power has soared to \$2.3 billion and may continue to grow for weeks or months. A request for an additional \$500 million last week was quickly followed by a request for another \$500 million this week, in part because the state has begun buying power for San Diego Gas & Electric. The emergency purchases began Jan. 17 when Gov. Gray Davis declared an emergency because suppliers would no longer sell power to two nearly bankrupt utilities, Pacific Gas and Electric and Southern California Edison.

### Energy crisis saps parks' purse

Gov. Gray Davis has seized \$30 million from community and park projects to finance bonuses for power generators that open new plants in time for the summer heat wave. The projects will be placed on indefinite hold, and those at risk are "unencumbered," meaning the funding provided for the project in this year's budget has not yet been spent.

Davis' plan is an indicator of the stress the electricity crisis is putting on the state's budget, which just a few months ago was considered flush with cash.

Last month, Davis took money earmarked for flood-control abatement to buy energy. The state has spent about

\$2 billion on electricity - mostly on the spot market - and it is unclear how much of that will be repaid.

Lawmakers in both expressed concern about whether the money will ever be repaid.

### **Alternative energy could blunt size of rate increases**

As California prepares to spend \$500 million more to buy electricity, lawmakers are close to a deal with alternative energy providers that could reduce the size of likely rate increases.

Negotiations entered closing phases yesterday among solar, wind and co-generation producers.

Alternative energy producers, who generate about one-third of the electricity used in the state, may hold the most hope for consumers likely facing future rate increases.

The alternative producers have been prospering because of the high price of natural gas, which determines the price utilities pay for the power.

"We're lowering the price from 17 cents a kilowatt to 8 cents. That reduces energy costs by \$4 billion," said state Sen. Jim Batin, R-La Quinta, who helped broker the deal with Speaker pro Temp Fred Keeley.

For the energy producers, receiving a lower price from the utilities is worth the cost for creating some stability in the electricity marketplace and ensuring that the utilities don't go bankrupt.

Ratcheting down the price paid for energy generated by alternative producers is central to the Legislature's attempt to restore order without huge rate increases.

### **Not just the large power producers needing to get paid**

Power generators large and small demand reimbursement for billions in unpaid bills

The loudest noise is being made by a handful of large national energy corporations. Although the state is buying some power on behalf of the utilities, these generators are still being forced to provide a sizable chunk of electricity without compensation -- a situation that surprised and angered many of them.

The other source of pressure is coming from a less publicized group: the more than 1,000 small power producers who use everything from wood to manure to wind to provide almost one-third of the state's power.

Though owed far less, many of these small generators are facing financial ruin because they have not been paid for two months. A handful have even begun to shut down.

Despite differences in size and circumstances, both camps are saying they can't wait much longer.

Under a bill passed last month, the generators thought the Department of Water Resources was going to buy all the power the utilities need beyond what they could still generate. Instead, it is buying only some of that power. Generators are required to provide the rest without payment. The state will not say exactly how much power is being acquired under either scenario.

However, state officials late Wednesday were reviewing a federal order that may force them to buy all the power.

Earlier this month, Sunnyside Cogeneration Partners, JRW Associates and Byron Power Partners -- which

generate a combined 23 MWs -- sued PG&E, saying they had been paid less than 15 percent of what they are owed.

Big Valley Lumber of Bieber is also facing a crunch. It is owed \$400,000 for electricity it sold from a 5-megawatt generator that's powered by wood chips and other waste. Owner Bruce Main said he usually counts on that money to get him through slow winters and has had to cut back on shifts to save money.

### **Air quality does not need to be sacrificed**

In their first comprehensive review of Gov. Gray Davis' plan to speed construction of new power plants, environmentalists argued yesterday that California does not have to sacrifice air quality to do it. By requiring existing plants to control emissions and relying more heavily on renewable energy and conservation, the state wouldn't have to settle for dirtier generating sources in its scramble for power, groups said at a hearing held by the California Energy Commission.

### **Energy adviser: State may need to purchase gas**

Gov. Gray Davis' energy construction czar said Tuesday that increasing California's electricity production could force the state into the natural-gas buying business.

"We know the gas is something we are going to have to look at very seriously," said Larry Hamlin, a SCE executive who has taken a two-month leave of absence to advise Davis. "I wouldn't want to eliminate (the possibility) if the state would or would not buy gas."

Hamlin is in charge of overseeing Davis' plan to speed up the state's time-consuming power-plant approval process. Most new plants will be powered by natural gas, a commodity that - like electricity - has skyrocketed in cost because supplies are short.

## **What Others Say**

### **No Timeout in Gougiers' Hardball Game With State**

Generators are refusing to sign long-term contracts with the state to supply affordable power until the state guarantees they get their money from the deadbeat utilities.

The generator refuses to sign an agreed to contract unless it's guaranteed that the utility debt will be paid.

State negotiators are refusing to link that to the long-term supply agreements. For one thing, the generators may have to eat some of the money they're owed.

After all, it was the generators' profits that drove Edison and PG&E toward bankruptcy in the first place.

From all indications, the talks are not going well. Only four contracts have been signed.

"If they try playing the people of California for chumps," said Senate President John Burton, "that would be the time to move in and let them know what the laws of the state are. And the laws of the state say we can grab your plant."

"And then they say, 'Well, who else is going to build plants here if you do that?' And my answer would be, 'The people of the state of California through a public power authority.'" --George Skelton, *LA Times*